

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 IO-13 NEA-11 SP-02 ICA-11
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CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 XMB-02
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R 180809Z MAY 78
FM AMEMBASSY MANILA
TO SECSTATE WASHDC 5934
INFO AMEMBASSY PORT MORESBY

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USADB

FOR NAC AGENCIES
EO 11652:N/A
TAGS:EAID, EFIN, ADB
SUBJECT: PROPOSED ADB LOAN TO PAPUA NEW GUINEA
DEVELOPMENT BANK (PAPUA NEW GUINEA)

REF: MANILA 5926

SUMMARY: ADB MANAGEMENT PROPOSING DOLLARS 7 MILLION
SPECIAL FUND LOAN TO PAPUA NEW GUINEA (PNG) FOR RELENDING
TO THE PAPUA NEW GUINEA DEVELOPMENT BANK (PNGDB) TO
PROVIDE TERM LOANS AND RELATED ASSISTANCE FOR SMALL-SCALE
INDUSTRIES, SMALL BUSINESSES AND SMALLHOLDER AGRICULTURAL,
LIVESTOCK AND FISHING DEVELOPMENT PROJECTS. THE BANK
ESTIMATES (REFTEL) THAT ABOUT 2,700 JOBS WILL BE CREATED
UNDER THE PROPOSED LOAN AT AN AVERAGE COST PER JOB OF
DOLLARS 2,590. IT IS ALSO EXPECTED THAT A MAJOR PART OF
THE PROJECT CAN BE UTILIZED IN THE LEAST DEVELOPED
PARTS OF THE COUNTRY. THE PROPOSED LOAN SHOULD THEREFORE
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CONTRIBUTE TO BALANCED REGIONAL DEVELOPMENT. PROJECT IS
TECHNICALLY AND ECONOMICALLY SOUND. USADB THEREFORE
RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOCUMENT R37-78 WITH ATTACHMENTS POUCHED MAY 10.
PROPOSED LOAN SCHEDULED FOR BOARD CONSIDERATION MAY 30.

2. ADB MANAGEMENT IS PROPOSING DOLLARS 7 MILLION SPECIAL FUND LOAN TO PNG. THE PROCEEDS OF THE LOAN WOULD BE RELENT BY PNG TO PNGDB AT 6 PERCENT PER ANNUM TO HELP MEET ITS FOREIGN CURRENCY RESOURCE REQUIREMENTS BETWEEN 1978-81. ADB LOAN WOULD BE REPAYED OVER 40 YEARS INCLUDING 10 YEARS GRACE PERIOD WITH A 1 PERCENT SERVICE CHARGE. PNGDB WOULD REPAY GOVERNMENT OVER 15 YEAR PERIOD INCLUDING A GRACE PERIOD NOT EXCEEDING 6 YEARS.

3. THE ECONOMY OF PNG IS ESSENTIALLY DIVIDED INTO A SUBSISTENCE SECTOR AND MONETARY SECTOR. ACTIVITIES IN THE MONETARY SECTOR INCLUDE AGRICULTURE, LIVESTOCK, MINING AND SERVICES. THE GREAT MAJORITY OF THE POPULATION (MORE THAN 85 PERCENT) LIVES IN RURAL AREAS AND DEPENDS LARGELY ON SUBSISTENCE PRODUCTION WHICH IN 1976 WAS ESTIMATED TO ACCOUNT FOR ONLY ABOUT 16 PERCENT OF GDP, WHICH HAS BEEN DECREASING STEADILY. ALTHOUGH PER CAPITA INCOME WAS ESTIMATED AT DOLLARS 490 IN 1976, SUBSISTENCE PER CAPITA WAS ESTIMATED TO BE ONLY ABOUT DOLLARS 160. RECOGNIZING THE ILL EFFECTS OF THIS SKEWED INCOME DISTRIBUTION, GOVERNMENT EFFORTS HAVE BEEN DIRECTED TOWARDS ENHANCING SUBSISTENCE PRODUCTION AND PROMOTION OF COMMERCIAL PRODUCTION (MAINLY CASH CROPS AND BEEF CATTLE) IN THE RURAL AREAS.

4. INDUSTRIAL AND BUSINESS ACTIVITIES ARE LARGELY CARRIED LIMITED OFFICIAL USE

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OUT BY EXPATRIATES. THE INDIGENOUS POPULATION HAD A NEGLIGIBLE SHARE UNTIL VERY RECENTLY BECAUSE OF LACK OF CAPITAL, TECHNICAL KNOW-HOW AND BUSINESS SKILLS. DURING THE LAST FEW YEARS, PARTICIPATION BY NATIONALS IN SIMPLE BUSINESS ACTIVITIES (MAINLY TRADE STORES AND TRUCKING) HAS INCREASED CONSIDERABLY, BUT THEIR INVOLVEMENT IN INDUSTRIAL PROJECTS - EVEN OF SMALL SIZE - IS STILL LIMITED.

5. PNGDB HAS A KEY POSITION IN THE GOVERNMENT'S STRATEGY TO DEVELOP RURAL AREAS AND TO INTRODUCE PAPUA NEW GUINEANS TO BUSINESS AND INDUSTRY. THIS IS NOT AN EASY TASK AS GENERAL ENTREPRENEURIAL ABILITY AND BASIC BUSINESS TRAITS ARE YET TO DEVELOP AMONG THE NATIONAL POPULATION AND THEIR DEVELOPMENT IS SERIOUSLY HAMPERED BY DEEP-ROOTED SOCIAL CUSTOMS AND TRADITIONS. PNGDB HAS, THEREFORE, TO OPERATE AT GRASS-ROOTS LEVEL DEALING WITH BORROWERS WHO ARE NEW TO BUSINESS. PNGDB'S PROBLEMS ARE AGGRAVATED BY THE FACT THAT INDIVIDUAL CREDIT REQUIREMENTS OF LOCAL BORROWERS ARE VERY SMALL AND THAT THEY ARE SPREAD OVER A WIDE AREA, VERY OFTEN INACCESSIBLE BY ECONOMICAL MEANS OF TRANSPORT.

6. AN IMPORTANT FEATURE OF PNGDB'S LOAN OPERATIONS IS "GROUP LOANS". IN VIEW OF THE EXISTENCE OF TRADITIONAL GROUPS AND THEIR IN-BUILT SOCIAL COHESIVENESS, PNGDB HAS ENCOURAGED LOANS TO SUCH GROUPS OR "CLANS" RATHER THAN TO INDIVIDUALS IN RECENT YEARS. SUCH GROUP LENDING HAS HELPED TO INCREASE THE SIZE OF INDIVIDUAL LOANS, TO BENEFIT A LARGER NUMBER OF PERSONS AND TO CREATE A SENSE OF JOINT RESPONSIBILITY TO DISCHARGE LOAN OBLIGATIONS.

7. ANOTHER IMPORTANT SCHEME OF PNGDB FOR INCREASING THE PARTICIPATION OF NATIONALS IN THE ECONOMY IS THROUGH THE INTRODUCTION OF NATIONALS INTO RETAIL TRADE. UNDER THIS SCHEME, PNGDB PURCHASES SUITABLE RETAIL STORES IN URBAN AREAS FROM EXPATRIATE OWNERS AND HANDS THEM OVER FOR LIMITED OFFICIAL USE

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MANAGEMENT TO NATIONALS WHO HAVE BEEN SELECTED AND PROVIDED WITH INTENSIVE TRAINING BY PNGDB. THE MANAGERS

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TO SECSTATE WASHDC 5935
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ARE CLOSELY SUPERVISED BY PNGDB STAFF FOR ONE YEAR. IF THE PERFORMANCE OF THE MANAGERS IS SATISFACTORY, PNGDB SELLS THE SHOPS TO THE MANAGERS ON AN INSTALLMENT BASIS. UNTIL THE SALE, THE SHOPS REMAIN, IN EFFECT, WHOLLY-OWNED SUBSIDIARY COMPANIES OF PNGDB. THERE ARE AT PRESENT 20 SUCH SHOPS OWNED BY PNGDB AND THREE SHOPS, PURCHASED EARLIER, HAVE ALREADY BEEN TRANSFERRED TO THEIR FORMER MANAGERS. PNGDB PROVIDES MANAGEMENT ADVICE AND FULL ACCOUNTING SERVICES TO SUCH RETAIL STORES ON PAYMENT OF FEES.

8. PNGDB IS ALSO RESPONSIBLE FOR OPERATION OF THE GOVERNMENT'S VILLAGE ECONOMIC DEVELOPMENT FUND (VEDF), WHICH WAS SET UP IN NOVEMBER 1974. THE FUND IS COMPOSED OF ANNUAL BUDGETARY GRANTS WHICH ARE USED TO PROVIDE SEED CAPITAL FOR GROUP PROJECTS IN RURAL AREAS. THESE GRANTS ARE AVAILABLE FROM VEDF FOR UP TO 40 PERCENT OF THE COST LIMITED OFFICIAL USE

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OF THE GROUP PROJECTS WHILE THE REST OF THE FUNDS ARE PROVIDED THROUGH PNGDB LOANS AND SPONSORS' OWN RESOURCES. WITH THE HELP OF VEDF GRANTS, PNGDB ASSISTS PROJECTS WHICH WOULD NOT OTHERWISE MERIT ITS CONSIDERATION BECAUSE OF INADEQUATE FINANCIAL RESOURCES OF THEIR SPONSORS.

9. ACCORDING TO BANK, PNGDB'S RELATIONSHIP WITH THE GOVERNMENT IS CORDIAL AND SMOOTH. THE GOVERNMENT, IN ADDITION TO PROVIDING PNGDB'S ENTIRE CAPITAL FREE OF COST THROUGH BUDGETARY GRANTS, HAS GUARANTEED ALL OF PNGDB'S EXTERNAL BORROWINGS SO FAR AND HAS EXEMPTED PNGDB FROM PAYING ANY TAXES ON ITS INCOME AND PROFITS. AT AN OPERATIONAL LEVEL, PNGDB MAKES CONSIDERABLE USE OF THE FIELD STAFF OF THE DEPARTMENT OF PRIMARY INDUSTRIES (DPI) WHO CARRY OUT THE INITIAL EXAMINATION OF APPLICATIONS FOR LOANS SUBMITTED BY BORROWERS IN RURAL AREAS FOR AGRICULTURAL DEVELOPMENT PROJECTS; AND PNGDB IS REPRESENTED ON GOVERNMENT COMMITTEES WHICH COORDINATE THE PROVISION OF AGRICULTURAL CREDIT.

10. PNGDB'S ORGANIZATIONAL STRUCTURE IS SUITABLE FOR ITS OPERATIONAL REQUIREMENTS AND ITS NEED TO SERVICE A VERY LARGE NUMBER OF SMALL BORROWERS IN RURAL AREAS. PNGDB THEREFORE HAS BRANCHES AND OFFICES ALL OVER THE COUNTRY WHICH HAVE LOAN PROCESSING STAFF TO WHOM CONSIDERABLE AUTHORITY IS DELEGATED FOR APPROVAL OF LOANS.

11. HIGH ADMINISTRATIVE EXPENSES ARE A DIRECT CONSEQUENCE OF SUCH AN ORGANIZATIONAL STRUCTURE. PNGDB'S ADMINISTRATIVE EXPENSES AMOUNTED TO 8.9 PERCENT OF ITS TOTAL ASSETS IN 1975/76 AND 7.6 PERCENT IN 1976/77.

PNGDB HAS, PARTICULARLY IN RECENT YEARS, DEVOTED
CONSIDERABLE EFFORTS TOWARDS REDUCING THIS HIGH
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ADMINISTRATIVE COST. THE MEASURES TAKEN INCLUDE:
(I) REDUCTION IN EXPATRIATE STAFF (WHO RECEIVE MUCH HIGHER
SALARIES THAN NATIONAL STAFF) WHERE FEASIBLE WITHOUT
IMPAIRING EFFICIENCY; (II) UTILIZATION OF FIELD STAFF OF
DPI, TO THE MAXIMUM POSSIBLE EXTENT; (III) SIMPLIFICATION
OF LOAN APPROVAL PROCEDURES; (IV) INTRODUCTION OF "MINI
LOANS"; AND (V) RECENTLY, APPOINTMENT OF AN ORGANIZATION
AND METHODS OFFICER TO CONTINUOUSLY REVIEW ITS
ORGANIZATION AND PROCEDURES AND TO SUGGEST ECONOMIES
WHEREVER POSSIBLE.

12. AS A RESULT OF THESE MEASURES, GRADUAL IMPROVEMENT IN
INTERNAL EFFICIENCY HAS OCCURRED IN THE LAST THREE YEARS,
AND ADMINISTRATIVE EXPENSES INCURRED IN PROCESSING OF
EACH LOAN APPLICATION HAVE DECLINED FROM K923 IN 1975 AND
K423 IN THE SECOND HALF OF 1977. FURTHER ECONOMY IS
EXPECTED IN ADMINISTRATIVE EXPENDITURE DURING 1978 AND
1979 BUT ON A LIMITED SCALE BECAUSE OF PNGDB'S EXTENSIVE
DEVELOPMENTAL ACTIVITIES AND ITS NEED TO MAINTAIN AN
ADEQUATE NUMBER OF CONTACT POINTS FOR ITS SMALL BORROWERS
IN SCATTERED RURAL AREAS.

13. THE RELENDING RATE BY THE GOVERNMENT TO PNGDB WILL BE
FIXED AT 6 PERCENT AS COMPARED TO 3-1/2 PERCENT UNDER THE
FIRST BANK LOAN. THE SUBLENDING RATE BY PNGDB TO SUB-
BORROWERS WILL RANGE FROM 8-10 PERCENT FOR AGRICULTURAL
AND GROUP LOANS, 9-11 PERCENT FOR INDUSTRIAL AND SMALL
BUSINESS LOANS AND 10-15 PERCENT FOR SERVICE INDUSTRY
LOANS. THE OVERALL AVERAGE LENDING RATE IS ESTIMATED AT
10.4 PERCENT WHICH WILL PROVIDE AN INTEREST SPREAD OF 4.4
PERCENT ON THE BANK FUNDS TO PNGDB.

14. THE ADB FEELS THAT THE RELENDING RATE OF 6 PERCENT BY
GOVERNMENT TO PNGDB IS JUSTIFIED BECAUSE: (I) PNGDB'S
OPERATIONAL COSTS ARE HIGH DUE TO ITS NEED TO SERVICE A
VERY LARGE NUMBER OF SMALL BORROWERS SCATTERED IN RURAL
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AREAS, (2) THAT IT HAS TO OPERATE WITHIN THE EXISTING
INTEREST RATE STRUCTURE, AND (3) THAT IT HAS YET TO WIPE
OUT ITS PAST ACCUMULATED LOSSES AND CANNOT BEAR A NORMAL

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R 180809Z MAY 78

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INTEREST BURDEN.

15. REPAYMENT PERIOD BY THE GOVERNMENT TO THE BANK WILL BE 40 YEARS INCLUDING A GRACE PERIOD OF 10 YEARS. REPAYMENT PERIOD FROM PNGDB TO THE GOVERNMENT WILL BE 15 YEARS INCLUDING A 3-YEAR GRACE PERIOD. HOWEVER, A GRACE PERIOD UP TO 6 YEARS MAY BE ALLOWED IN THE CASE OF NEW COCOA, COFFEE, COCONUT, RUBBER AND CATTLE PROJECTS.

16. PNGDB MAKES EXTRAORDINARY EFFORTS TO KEEP THE NUMBER OF "SOUR" PROJECTS ON ITS PORTFOLIO AT A BARE MINIMUM (TO AVOID A DISCOURAGING EFFECT ON THE NEWLY EMERGING LOCAL ENTREPRENEURIAL CLASS) AND TO BE STRICT IN LOAN RECOVERIES (TO AVOID DEVELOPING BAD CREDIT HABITS AMONG PRESENT AND POTENTIAL BORROWERS IN PNG). ACCORDING TO ADB, PNGDB HAS TAKEN EXTRA CARE TO SELECT GOOD PROJECTS, TO MAINTAIN CLOSE SUPERVISION AND TO MAKE PROMPT LOAN

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RECOVERIES. IN THIS RESPECT, ITS RECORD IS QUITE SATISFACTORY DESPITE THE SMALL SIZE OF LOANS AND NEW AND INEXPERIENCED BORROWERS.

17. PNGDB WILL SATISFY THE BANK THAT THE PROCUREMENT

PROCEDURES ADOPTED BY INDIVIDUAL SUB-BORROWERS UNDER THE PROPOSED BANK LOAN ARE APPROPRIATE IN THE CIRCUMSTANCES. PNGDB WOULD ALSO ENSURE THAT GOODS AND SERVICES TO BE FINANCED OUT OF THE PROCEEDS OF THE BANK LOAN WILL BE PURCHASED AT REASONABLE PRICES, ACCOUNT BEING TAKEN ALSO OF RELEVANT FACTORS SUCH AS DELIVERY TIME, EFFICIENCY AND RELIABILITY OF THE GOODS, THEIR SUITABILITY FOR THE PROJECT, AND THE AVAILABILITY OF MAINTENANCE FACILITIES AND SPARE PARTS AND, IN THE CASE OF SERVICES, OF THE QUALITY AND THE COMPETENCE OF THE PARTIES RENDERING THEM.

18. THE BENEFICIARIES OF THE PROPOSED LOAN ARE EXPECTED TO BE SMALL-SCALE INDUSTRIES, SMALL BUSINESSES AND

SMALLHOLDER AGRICULTURAL AND LIVESTOCK DEVELOPMENT PROJECTS INCLUDING FISHING. THE TENTATIVE DISTRIBUTION OF THE PROPOSED LOAN WOULD BE: (I) MANUFACTURING INDUSTRY INCLUDING SMALL-SCALE INDUSTRIES: 30 PERCENT, (II) SERVICE INDUSTRY INCLUDING TRANSPORTATION: 30 PERCENT, (III) SMALLHOLDER AGRICULTURAL DEVELOPMENT PROJECTS INCLUDING GROUP/VILLAGE PROJECTS: 30 PERCENT AND (IV) SMALL BUSINESSES: 10 PERCENT. THE MAXIMUM LIMIT FOR AN INDIVIDUAL SUBLOAN WOULD BE DOLLARS 500,000 BUT IN KEEPING WITH PNGDB'S PAST LENDING PATTERN IT IS EXPECTED THAT AT LEAST 60 PERCENT OF THE LOAN WOULD BE UTILIZED FOR INDIVIDUAL SUBLOANS NOT EXCEEDING DOLLARS 100,000.

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19. IN LINE WITH GOVERNMENT POLICY AND OPERATIONAL PROSPECTS, PNGDB HAS CONSISTENTLY ENDEAVOURED TO ACHIEVE AN EVEN DISTRIBUTION OF LOAN APPROVALS THROUGHOUT THE COUNTRY. AS SUCH, IT IS EXPECTED THAT THE RELATIVELY VERY LIMITED URBAN AREAS OF PNG WILL ACCOUNT FOR ONLY A SMALL SHARE OF THE BANK LOAN. AS A MAJOR PART OF THE PROPOSED LOAN IS EXPECTED TO BE UTILIZED IN THE LEAST DEVELOPED PARTS OF THE COUNTRY, THE UTILIZATION OF THIS LOAN IS EXPECTED TO INCREASE RURAL EMPLOYMENT, REDUCE SEASONAL UNEMPLOYMENT OR UNDEREMPLOYMENT AND CONTRIBUTE TO BALANCED REGIONAL DEVELOPMENT.

20. SINCE A MAJOR SHARE OF THE LOAN IS EXPECTED TO GO TO SMALL BUSINESS AND AGRICULTURE DEVELOPMENT PROJECTS, ETC., IT IS EXPECTED THAT THERE WOULD BE CONSIDERABLE EMPLOYMENT

CREATION. ON THE BASIS OF AVAILABLE DATA, IT IS EXPECTED THAT ABOUT 2,700 ADDITIONAL JOBS WILL BE CREATED UNDER THE PROPOSED BANK LOAN AT AN AVERAGE COST PER JOB OF DOLLARS 2,590.

21. IN DECEMBER 1971 PNG RECEIVED A DOLLARS 4.5 MILLION SPECIAL FUNDS LOAN FOR THE PNGDB. THE FIRST TWO SUB-LOANS SUBMITTED BY PNGDB WERE FOR VERY LARGE AMOUNTS (DOLLARS 1.02 MILLION AND DOLLARS 0.85 MILLION) TO FINANCE TWO LARGE-SCALE TIMBER PROCESSING VENTURES LARGELY OWNED BY EXPATRIATE COMPANIES. THE BANK APPROVED THESE SUB-LOANS AFTER OBTAINING SATISFACTORY EXPLANATIONS ABOUT THEIR VIABILITY FROM PNGDB. HOWEVER, THE BANK REQUESTED PNGDB TO TRY TO UTILIZE THE BALANCE OF THE LOAN FOR RELATIVELY SMALLER SUB-PROJECTS SPONSORED PREFERABLY BY NATIONALS IN SECTORS OTHER THAN THE TIMBER INDUSTRY IN ORDER TO ENABLE A LARGER NUMBER OF SUB-BORROWERS TO BENEFIT AND TO MAXIMIZE THE SOCIO-ECONOMIC IMPACT OF THIS BANK LOAN. AFTER A PERIOD OF INACTIVITY REGARDING THE ADB LOAN, THE BANK AND PNGDB EVOLVED A SIMPLIFIED FORMAT FOR APPROVAL OF SMALL LOANS. THEREAFTER, THE UTILIZATION OF THE LOAN WAS LIMITED OFFICIAL USE

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RESUMED BY PNGDB FOR FINANCING 554 SMALL SUB-LOANS FOR A TOTAL AMOUNT OF DOLLARS 2.63 MILLION. THESE SUB-LOANS ARE FOR FINANCING THE PURCHASE OF TRUCKS, FARM AND PLANTATION VEHICLES AND OTHER UTILITY VEHICLES FOR CARRIAGE OF AGRICULTURAL PRODUCE AND GOODS WHICH FORM A SIZEABLE PART

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FM AMEMBASSY MANILA

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OF PNGDB'S OVERALL OPERATIONS. SUCH VENTURES PLAY AN IMPORTANT PART IN MARKETING OF AGRICULTURAL PRODUCE, CONTRIBUTE TOWARDS GROWTH OF CASH CROP CULTIVATION AND GENERATE HIGHER AND MORE STABLE INCOMES FOR SMALL FARMERS. ALL THESE SUB-LOANS WERE FOR SMALL AMOUNTS RANGING FROM DOLLARS 641 TO DOLLARS 24,403 AND WERE BELOW THE FREE LIMIT OF DOLLARS 50,000 UNDER THE FIRST LOAN.

22. USADB COMMENT: ACCORDING TO STAFF ADB'S PRIMARY CONTRIBUTION TO PNGDB HAS BEEN TO REINFORCE PNGDB'S STRATEGY OF LENDING TO SMALL COMMERCIAL VENTURES, MANY OF THEM LOCATED IN REMOTE PARTS OF THE COUNTRY. PNGDB HAS SHOWN ITSELF COMMITTED TO LENDING TO SMALL BUSINESSES BY MAKING OVER 550 SUB-LOANS FROM THE ADB'S FIRST LOAN. CURRENTLY, OVER 98 PERCENT OF PNGDB LOANS GO TO NATIVE BUSINESSES. IN FACT, STAFF HAS STATED THAT IN SOME CASES THE PNGDB LOAN WAS THE FIRST FINANCIAL TRANSACTION HANDLED
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BY A NATIVE PAPUA NEW GUINEAN. THE USE OF SPECIAL FUNDS IS JUSTIFIED BY THE ADB ON THE GROUNDS THAT BY SERVICING A LARGER NUMBER OF SMALL BUSINESSES OFTEN IN REMOTE PARTS OF PNG, THE PNGDB HAS INCURRED UNUSUALLY HIGH ADMINISTRATIVE COSTS. BECAUSE OF THE SMALL SIZE OF THE TARGET GROUP AND THE MULTI-SECTOR NATURE OF THE PNGDB, ITS ADMINISTRATIVE COSTS ARE HIGH, RUNNING ABOUT 7.4 PERCENT. STAFF FEELS THAT IT WOULD BE EXTREMELY DIFFICULT FOR THE PNGDB TO OPERATE WITH ADMINISTRATIVE COSTS LESS THAN 7 PERCENT. IF THE PNGDB IS TO MAINTAIN A POSITIVE INTEREST SPREAD IT WOULD HAVE TO CHARGE INTEREST RATES TO SMALL ENTREPRENEURS SUBSTANTIALLY HIGHER THAN COMMERCIAL RATES (PNGDB RATES ARE ROUGHLY 0.5 - 1.5 PERCENT LESS THAN EQUIVALENT COMMERCIAL BANK RATES). THE USE OF SPECIAL FUNDS ALLOWS PNGDB TO MANAGE A POSITIVE INTEREST SPREAD AND STILL CHARGE INTEREST RATES COMPATIBLE WITH CURRENT MARKET RATES. THE INTEREST DIFFERENTIAL OF ALMOST 6 PERCENT BETWEEN PNG BORROWING RATE AND ITS LENDING RATE TO THE PNGDB ACCRUES TO THE GOVERNMENT. STAFF FELT THAT PNG' GOOD DEVELOPMENT RECORD MADE IT UNNECESSARY TO REQUIRE THAT DIFFERENTIAL BE PLACED IN A SPECIAL TRUST. THE ADB HAS

APPROVED NINE SPECIAL FUND LOANS TO OTHER COUNTRIES WITH
SIMILAR REPAYMENT TERMS FOR THE EXECUTING AGENCY. PROJECT
APPEARS TECHNICALLY AND ECONOMICALLY VIABLE. USADB
THEREFORE RECOMMENDS FAVORABLE NAC ACTION.

23. REQUEST AMEMBASSY PORT MORESBY'S COMMENTS FOR NAC
AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795
DATED 3 JULY 1972. EDMOND

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Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
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Review Transfer Date:
Review Withdrawn Fields: n/a
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Secure: OPEN
Status: NATIVE
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